

MUSCATINE POWER AND WATER

FINANCIAL STATEMENTS

December 31, 2005 and 2004

MUSCATINE POWER AND WATER

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INDEPENDENT AUDITORS' REPORT

To the Board of Water, Electric, and Communications Trustees
Muscatine Power and Water:

We have audited the accompanying financial statements of Muscatine Power and Water (utility), a component unit of the City of Muscatine, Iowa as of December 31, 2005 and 2004, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of utility management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Chapter 11 of the Code of Iowa. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muscatine Power and Water as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 14 is not a required part of the financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Virchow, Krause & Company, LLP

Madison, Wisconsin
February 15, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS
MUSCATINE POWER AND WATER

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005, 2004 and 2003

The following is provided as a narrative analysis of the Electric, Water and Communications Utilities' financial activities based on currently known facts, decisions, and conditions. This should be read in conjunction with the Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit), and the Statements of Cash Flows, which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) report all revenues and expenses for the year. The Balance Sheets include all assets and liabilities, and indicate those that are restricted by the Board of Water, Electric & Communications Trustees (the Board). The Statements of Cash Flows report the cash from operating activities, as well as cash from capital and related financing activities, and investing activities.

UTILITY FINANCIAL ANALYSIS

ELECTRIC UTILITY

Financial results for the year 2005 exceeded budget expectations. The Electric Utility recorded net income, before a transfer to the Extraordinary Operation and Maintenance Account, of \$14.0 million compared to a budgeted net income of \$3.8 million. Wholesale sales led the way with \$24.9 million in revenues for the year, up \$9.6 million from budget. The improvement in wholesale sales was due to a 44.4% higher average price, and 12.7% higher kWh's sold. Retail electric sales were \$1.4 million more than projected due to 3.7% higher kWh's sold. Lower than expected operation and maintenance costs (excluding production fuel and purchased power costs) accounted for approximately \$500,000 of additional net income.

No price adjustments have been necessary in the Electric Utility since 2002. In the last 15 years, Muscatine Power and Water (MP&W) has had only three price adjustments; one adjustment was a 7% rate reduction. Controlling costs and recent years' success with selling excess energy has contributed to keeping our rates stable and competitive.

Financial Highlights:

In thousands \$	2005	2004	2003
Cash and Investments	\$ 50,639	\$ 41,362	\$ 35,761
Total Capital Assets	153,071	160,706	167,945
Total Assets	259,779	256,048	258,712
Outstanding Debt	85,353	96,365	105,978
Deferred Revenue	29,303	15,254	8,527
Total Net Assets	137,460	137,460	137,460
Operating Revenues	76,420	67,880	66,088
Operating Expenses	59,957	57,808	55,671
Nonoperating Revenues	2,106	1,971	2,219
Interest on Long-Term Debt	4,757	5,292	5,929
Capital Contributions	237	-	-
Net Income before Deferred Revenue	14,049	6,727	6,708
Change in Net Assets	-	-	-

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Results of Operation: (As reported in the Statements of Revenues, Expenses, and Changes in Net Assets)

Retail electric sales have increased over the past two years. KWh sales in 2005 increased by 2.3% over 2004 resulting in \$1.2 million higher revenue, and 2004 kWh sales were greater than 2003's sales by 3.8% producing an additional \$1.3 million.

Wholesale electric sales were \$24.9 million for the year, compared to \$18.1 million in 2004 and \$17.5 million in 2003. The improvement in wholesale sales is primarily due to higher prices (\$44.2/MWh in 2005 compared to \$30.4/MWh in 2004 and \$29.7/MWh in 2003). MP&W currently employs two energy marketing firms that allow us to market energy over a large geographic area.

September 2005 began the sixth year of a 10-year steam sale agreement with MP&W's industrial customer, Grain Processing Corporation (GPC). A combination of a 6.5% higher price per pound offset by .2% lower pounds sold resulted in \$435,900 more revenue in 2005. During 2004, pounds of steam sold to GPC decreased slightly and the price increased, resulting in an increase of \$50,100 in revenue compared to 2003.

Operating expenses for 2005 were \$2.1 million greater than 2004's expenses. Coal costs account for approximately \$600,000 of this overage due to higher rail transportation costs. Purchased power was approximately \$800,000 greater than 2004 due to 14.0% more kWh's being purchased at a 26.3% higher average price.

2004 operating expenses were \$2.1 million greater than the prior year. Production fuel and purchased power was approximately \$329,000 or 1.8% higher than in 2003 due to a larger amount of coal burned. Maintenance expenses for the generation plant, primarily related to the boiler plant, were higher in 2004 by \$1.6 million or 26.0% than in 2003.

Investment income has been greater the last two years due to increasingly higher investment balances. Negative mark-to-market adjustments, brought about by increasing investment interest rates, were \$203,700, \$354,400, and \$343,800 in 2005, 2004, and 2003, respectively. The interest rate on the note receivable from the Communications Utility loan has been adjusted annually since January 1, 2004. The interest rate was 3.03% in 2005, 3.5% in 2004, and 5.0% in 2003. The interest rate will be adjusted to 3.53% for 2006.

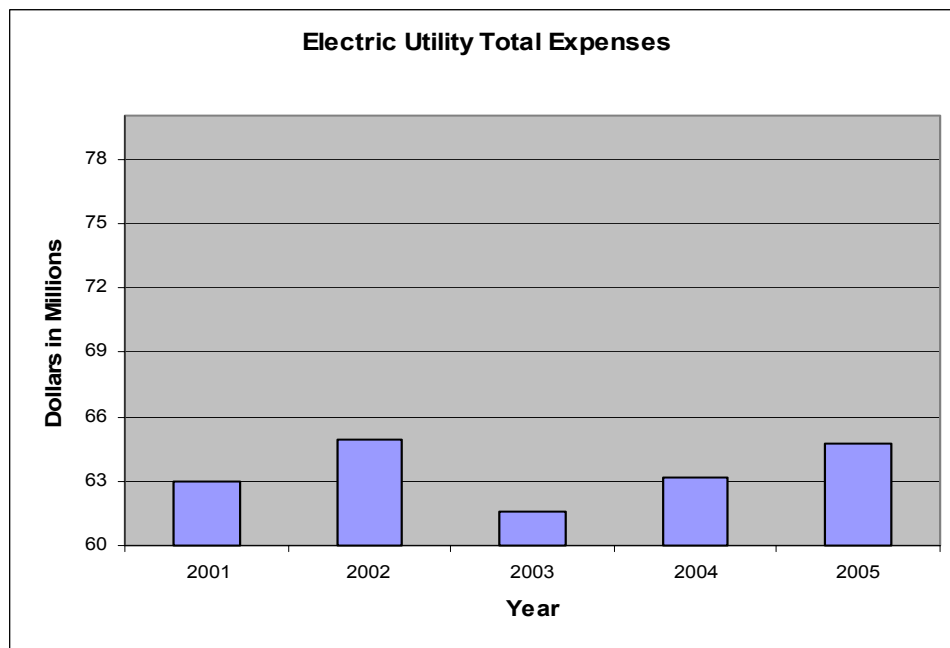
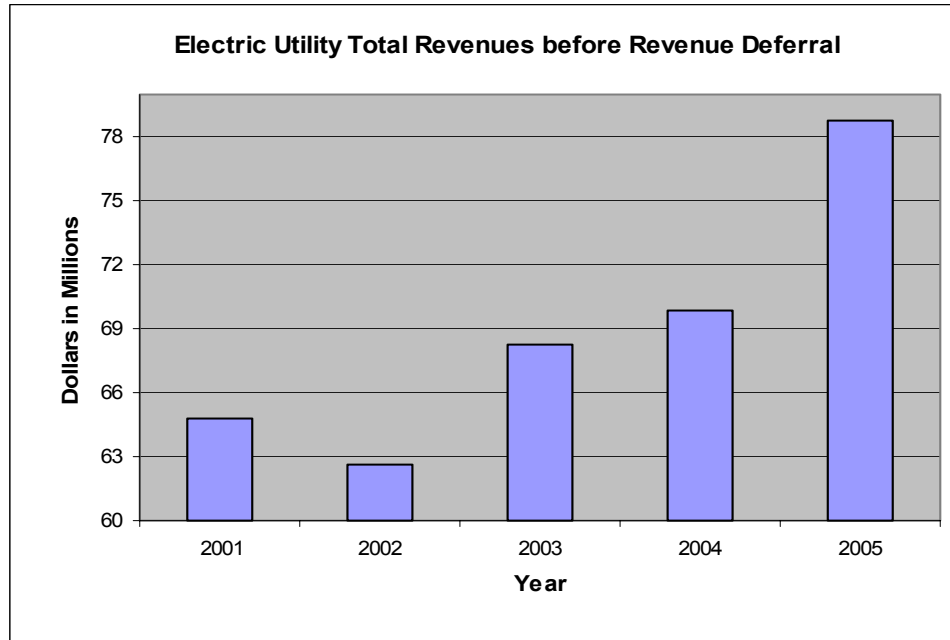
Capital contributions for the year 2005 include \$171,200 from the Iowa Department of Transportation for traffic signals, \$12,100 from the City of Muscatine for overhead line relocation for a bike/walk trail and \$44,000 for extensions of service lines and transformers.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Financial Position: (As reported in the Balance Sheets)

Restricted assets, \$46,659,800 at December 31, 2005, include the Rate Stabilization Fund, the Bond Sinking Fund, and the Extraordinary Operation & Maintenance Account. These funds have been set aside for uses specified by the Board or by bond covenants. The increase of \$8,443,600 is mainly due to the transfer of \$12,725,600 to the Extraordinary Operation & Maintenance Account from the Surplus Fund less a transfer from the Rate Stabilization Fund of \$4,351,500 to the Surplus Fund for partial reimbursement of capital expenditures made during 2005.

Capital assets represent 58.9% of total assets. Depreciation and retirements exceeded capital expenditures resulting in a reduction in net utility plant of 4.8%.

MP&W, the City of Muscatine and Muscatine County organized the Muscatine Area Geographic Information Consortium (MAGIC) under a 28E agreement in December 2001. As a separate entity, MAGIC's purpose is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems (GIS/LIS) technology and data. Joint venture rights of \$203,000 at December 31, 2005 represents MP&W's contributions less amortization.

Accrued expenses include \$863,900 for self-insured health care reserves in excess of claims paid. This is an increase over 2004's health care accrual of \$461,100.

No new debt has been issued since 2002. MP&W is required by its bond covenants to maintain a debt service coverage of 1.0 times. The debt service coverage ratio, prior to the revenue adjustment, was 2.03 times for 2005, 1.60 times for 2004, and 1.71 times for 2003. MP&W's unenhanced electric revenue bond ratings from Standard & Poor's and Fitch Ratings were reaffirmed in 2005 at "A-". This rating indicates that the bonds are of investment grade quality. However, the outstanding bonds continue to be rated "AAA" by both agencies due to the municipal bond insurance policy issued by AMBAC.

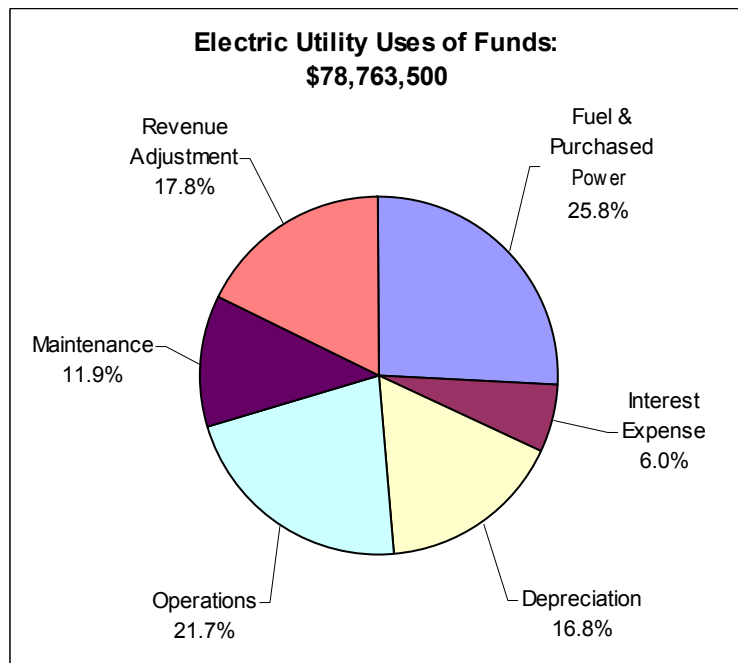
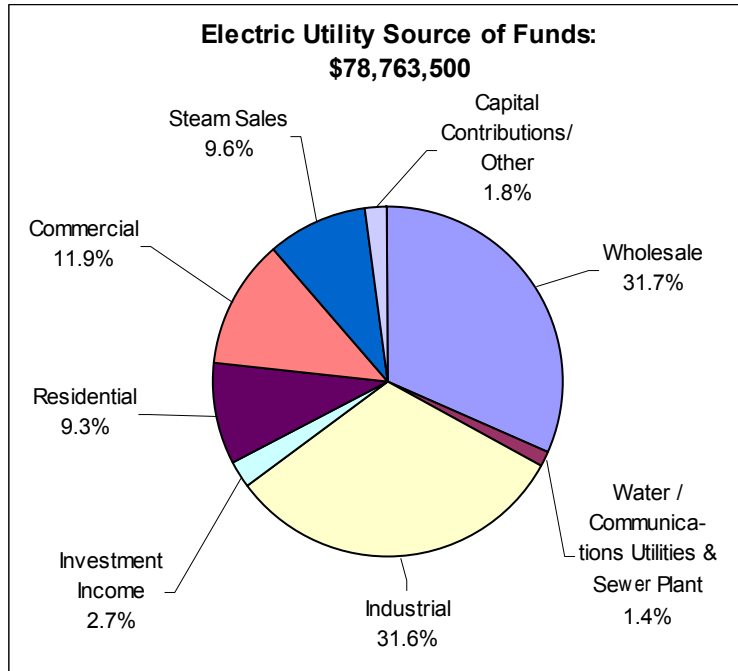
Deferred revenue increased by \$14,049,300 in 2005. This amount is equal to the net income before deferred revenue, and may be used at the Board's discretion for extraordinary operating expenses.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY

The Water Utility reported net income of \$125,700 in 2005 versus a budgeted net income of \$42,300. Actual results were better than budget for two primary reasons. First, there were capital contributions from developers for water main extensions totaling \$63,100. Second, investment income exceeded budget by \$33,500 due to higher than anticipated interest rates and cash balances not being expended as quickly as anticipated for construction projects.

A 5.0% overall price adjustment went into effect with water usage starting January 1, 2005. In December 2005, a 4.0% water rate increase was approved by the Board to become effective with water usage starting April 1, 2006. These adjustments were in response to an increase in capital requirements, and higher operation and maintenance costs.

Financial Highlights:

In thousands \$	2005	2004	2003
Cash and Investments	\$ 1,945	\$ 2,689	\$ 2,842
Total Capital Assets	11,827	10,951	9,661
Total Assets	14,351	14,251	13,069
Total Net Assets	11,529	11,403	11,369
Operating Revenues	3,830	3,682	3,697
Operating Expenses	3,839	3,722	3,697
Investment Income	72	77	106
Capital Contributions	63	-	-
Change in Net Assets	126	34	106

Results of Operation:

(As reported in the Statements of Revenues, Expenses, and Changes in Net Assets)

MP&W's industrial customers account for 49.5% of total 2005 water sales.

Water sales revenue for 2005 was higher than the previous year by \$148,800 or 4.1%. Gallons of water sold to residential customers were up 13.0% from 2004; industrial customers' usage decreased by 7.9%. Total metered customers usage was 5.8% lower than 2004, but due to the price adjustment, revenue increased.

2005 maintenance expenses were 24.2% higher than in 2004, due to painting the interior of the East Hill reservoir at a cost of \$130,400. In 2004, maintenance expenses were 11.8% lower than in 2003 due to fewer wells being cleaned (five compared to fourteen in 2003), and less main and hydrant repairs.

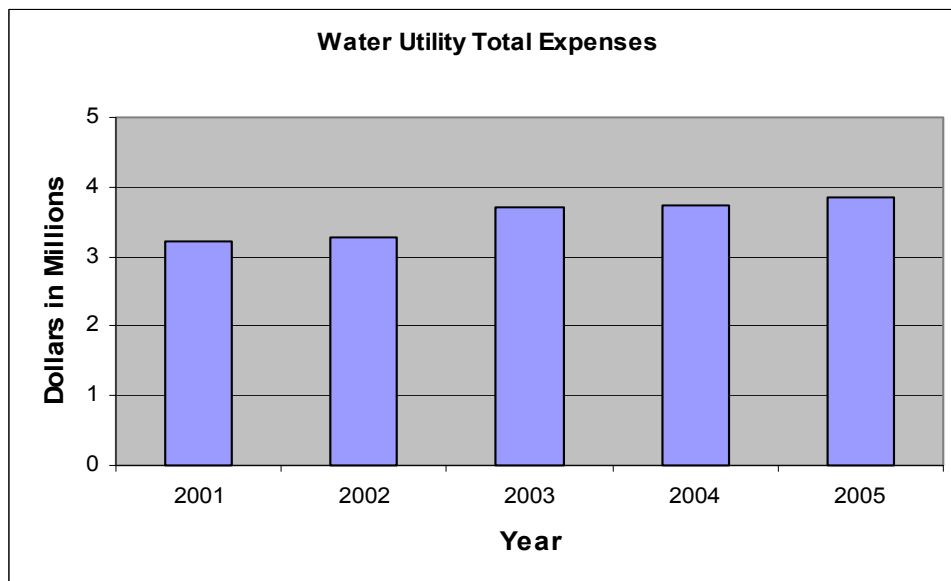
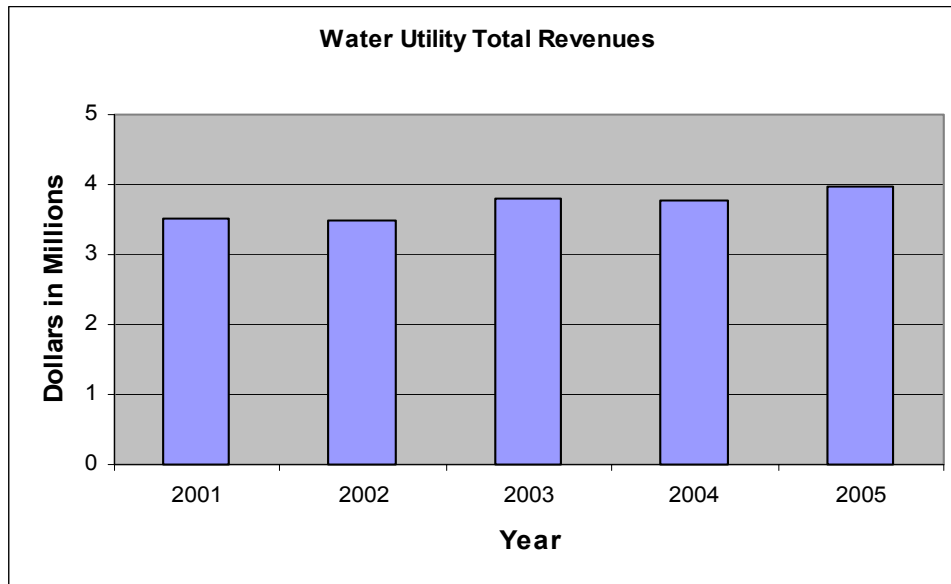
MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)

Investment income has been less in 2005 and 2004 due to lower cash and investment balances. Mark-to-market adjustments were a positive \$2,300 in 2005 and a negative \$8,100 in 2004. The Water Utility has been debt-free since 1994.



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

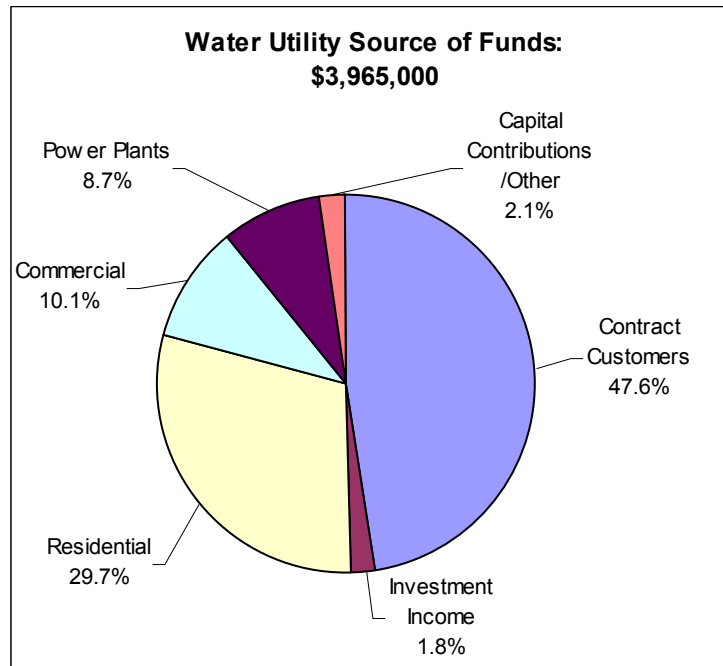
WATER UTILITY (cont.)

Financial Position: **(As reported in the Balance Sheets)**

Funds appropriated for specific purposes, \$1,533,900 at December 31, 2005, consist entirely of the Depreciation, Extension, and Improvement Fund. This fund has been set aside for uses specified by the Board.

Capital assets represent 82.4% of the total assets. Capital assets increased significantly since 2003, primarily due to the completion of water main projects totaling \$885,200 in 2005, and \$1,501,100 in 2004. The south end water main project costing \$1,034,600 was paid for by the City of Muscatine in 2004.

Customer advances for construction includes the City of Muscatine's contributions for the south end water main project less MP&W's refunds of \$200 for each customer that attached directly to the water main extension; the remaining advance was \$1,021,700 at the end of 2005, and \$1,027,500 at the end of 2004.

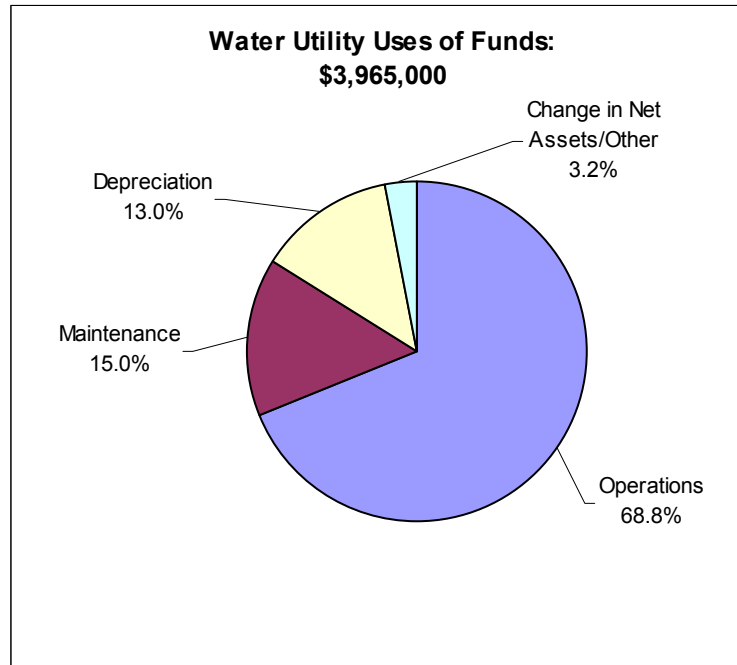


MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)



COMMUNICATIONS UTILITY

The Communications Utility posted a net loss of \$1.6 million, which was within 1.9% of the budget. This is an improvement of \$548,400 from 2004's year end results and an improvement of \$1.6 million, compared to 2003's net loss of \$3.2 million. Total operating revenues were up 4.1% from 2004, while operating expenses were up only 1.5%. The operating results for the Communications Utility continue to improve.

Price adjustments for both CATV and Internet services, and the establishment of a new Internet service entitled MachLink Lite became effective September 1, 2005. Total basic and expanded-basic cable service increased from \$38.75 to \$43.99/month, while cable-modem Internet service remained at \$39.00/month, dial-up Internet service decreased \$2.00/month to \$19.95 monthly, and MachLink Lite was offered at a price of \$21.95/month. The increase in CATV charges was necessary to keep pace with rising programming costs.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

Financial Highlights:

In thousands \$	2005	2004	2003
Cash and Investments	\$ 1,976	\$ 1,826	\$ 1,353
Total Capital Assets	12,721	13,844	15,550
Total Assets	21,297	22,947	25,111
Note Payable to Electric Utility	35,327	35,327	34,975
Net Deficit	15,193	13,543	11,345
Operating Revenues	8,362	8,032	7,351
Operating Expenses	9,153	9,016	8,886
Investment Income	48	17	35
Interest on Note Payable	1,070	1,231	1,730
Capital Contributions	164	-	-
Change in Net Deficit	1,650	2,198	3,230

Results of Operation:

(As reported in the Statements of Revenues, Expenses, and Changes in Net Deficit)

Although the total number of CATV subscribers decreased slightly, 2005 and 2004 operating revenues were 6.8% and 13.8% greater than the prior year, respectively, due to the price adjustments in September 2005, 2004, and 2003. In 2005, the number of data/Internet subscribers increased along with the associated revenues, and municipal area network revenues decreased by 11.3% due to the loss of a portion of business from one customer.

Operating expenses in 2005 increased by 1.5% or \$136,700 over 2004's expenses. Property taxes of \$117,300 were expensed in 2005 for the period January 1, 2003 through December 31, 2005. Prior to this time, MP&W's responsibility for the taxes was uncertain. Headend equipment maintenance was \$102,800 greater than the previous year. Amortization expense attributable to the acquisition of an Internet customer base in October 2001, ceased in October 2004. This occurred because the intangible asset was fully amortized, and resulted in \$117,900 less amortization expense for 2005. The remaining amortization expense is attributable to the January 2003 Mediacom acquisition, which is being amortized over 10 years.

2004 operating expenses were \$130,000 or 1.5% greater than in 2003.

2005 investment income is greater than in 2004 due to earning a higher rate of return and higher cash and investment balances. Negative mark-to-market adjustments of \$500, \$4,700, and \$3,500 in 2005, 2004, and 2003, respectively, were the result of rising interest rates.

The interest rate on the note payable to the Electric Utility was 3.03%, 3.5%, and 5.0% in 2005, 2004, and 2003, respectively.

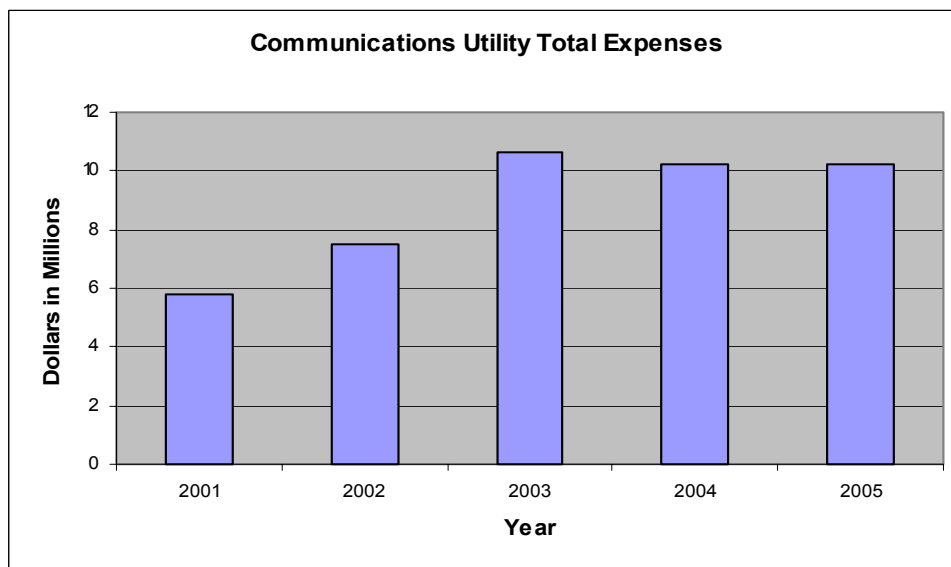
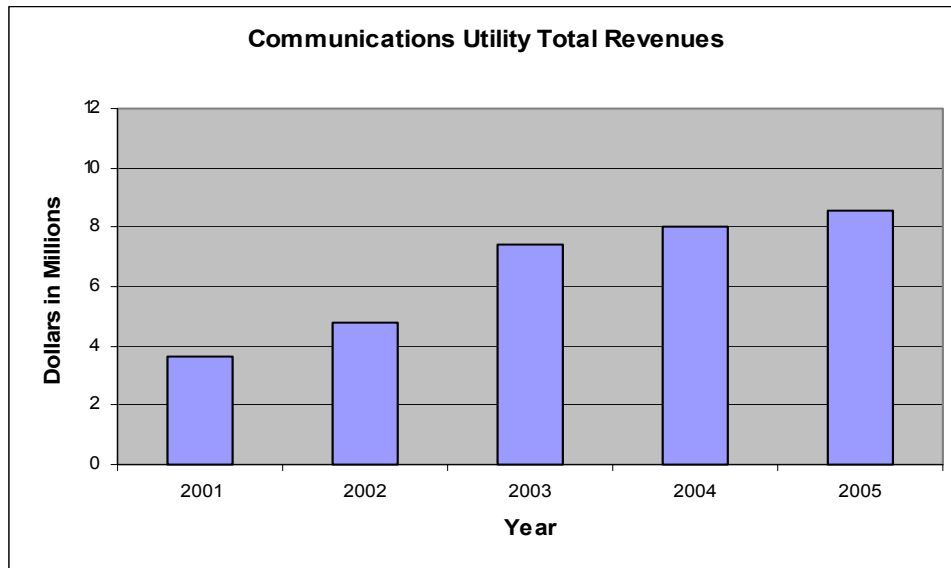
MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

Capital contributions were received from WTC Communications, Mediapolis Telephone Company, and the Electric Utility for utility plant utilized by those contributors, in the amounts of \$35,100, \$66,400, and \$62,200, respectively.



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

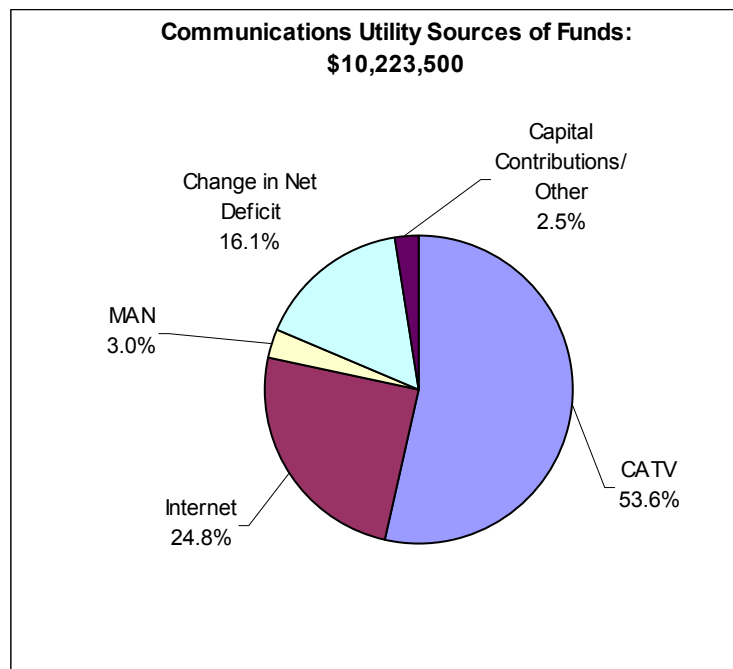
Financial Position: **(As reported in the Balance Sheets)**

Prepaid and deferred expenses include \$42,600 in 2005 and \$34,100 in 2004 for maintenance contracts. The 2004 balance also includes \$57,200 for property taxes paid but not expensed due to the uncertainty of MP&W's responsibility for the taxes.

Capital assets represent 59.7% of the total assets.

The intangible asset is the unamortized value of the customer base acquired from Mediacom in 2003.

The note payable due to the Electric Utility was for the initial construction, expansion and operations of the Communications Utility. The interest rate on the note has been adjusted annually since January 1, 2004. The interest rate was 3.03% in 2005, 3.5% in 2004, and 5.0% in 2003. It will be adjusted to 3.53% for 2006. Accrued interest payable in 2005 reflects the lower interest rate. Payments for interest only have been made on the loan. Principal payments are scheduled to begin January 1, 2007.

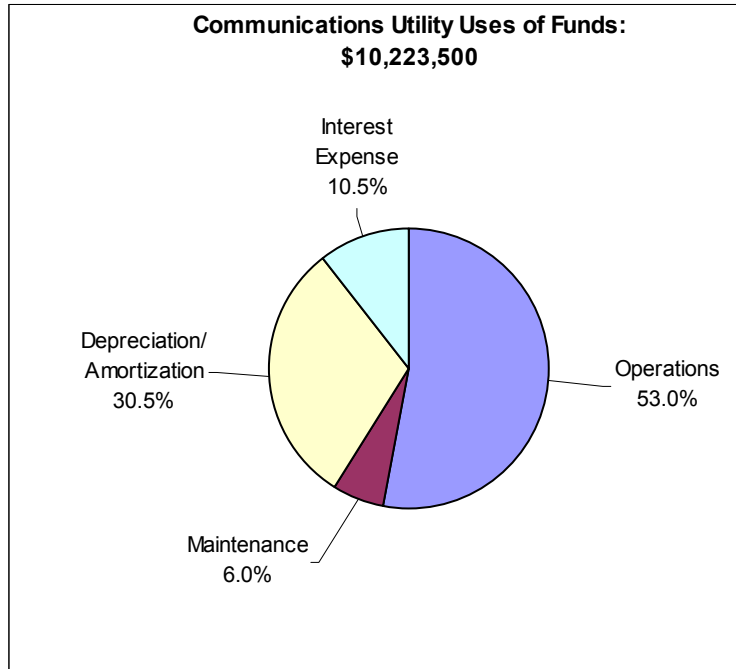


MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005, 2004 and 2003

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)



CONTACTING UTILITY MANAGEMENT

This financial report is designed to provide a general overview of MP&W's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Finance & Administrative Services at 3205 Cedar Street, Muscatine, Iowa 52761.

Electric Utility – Balance Sheets
Follows

**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

BALANCE SHEETS
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash	\$ 15,751	\$ 8,161
Investments	3,963,662	3,137,752
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2005 - \$2,900; 2004 - \$3,400	8,775,645	6,775,679
Interest	890,171	846,470
Inventories:		
Fuel	3,857,328	4,063,662
Materials and supplies	6,059,111	5,588,259
Prepaid and deferred expenses	544,428	530,166
Total Unrestricted Assets	<u>24,106,096</u>	<u>20,950,149</u>
Restricted Assets		
Cash	1,611	934
Investments	46,658,190	38,215,287
Total Restricted Assets	<u>46,659,801</u>	<u>38,216,221</u>
Total Current Assets	<u>70,765,897</u>	<u>59,166,370</u>
NON-CURRENT ASSETS		
Capital assets		
Utility plant in service	379,243,326	375,302,603
Construction work in progress	2,513,849	1,154,391
Less: accumulated depreciation	<u>(228,686,604)</u>	<u>(215,750,641)</u>
Total Capital Assets	<u>153,070,571</u>	<u>160,706,353</u>
Other assets		
Unamortized bond issuance costs	412,581	616,833
Note receivable from communications utility	35,327,000	35,327,000
Joint venture rights	202,997	231,305
Total Other Assets	<u>35,942,578</u>	<u>36,175,138</u>
Total Non-Current Assets	<u>189,013,149</u>	<u>196,881,491</u>
TOTAL ASSETS	<u>\$ 259,779,046</u>	<u>\$ 256,047,861</u>

	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable From Unrestricted Assets		
Trade accounts payable	\$ 2,061,514	\$ 1,767,502
Accrued expenses	2,992,906	2,498,884
Customer deposits	599,631	537,797
Total Payable From Unrestricted Assets	5,654,051	4,804,183
Payable From Restricted Assets		
Current portion of long-term debt	11,780,000	11,465,000
Accrued interest payable	2,009,699	2,165,623
Total Payable From Restricted Assets	13,789,699	13,630,623
Total Current Liabilities	19,443,750	18,434,806
NON-CURRENT LIABILITIES		
Long term debt, net of current portion	73,572,523	84,899,551
Deferred revenue	29,303,164	15,253,895
Total Non-Current Liabilities	102,875,687	100,153,446
NET ASSETS		
Invested in capital assets, net of related debt	68,334,835	65,211,987
Restricted	44,650,102	36,050,598
Unrestricted	24,474,672	36,197,024
Total Net Assets	137,459,609	137,459,609
TOTAL LIABILITIES AND NET ASSETS	\$ 259,779,046	\$ 256,047,861

**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Retail electric sales	\$ 42,701,992	\$ 41,532,324
Wholesale electric sales	24,946,757	18,098,433
Steam sales	7,559,128	7,123,240
Other	1,212,206	1,126,371
Total Operating Revenues	<u>76,420,083</u>	<u>67,880,368</u>
OPERATING EXPENSES		
Production fuel and purchased power	20,302,427	19,082,859
Other operating expenses	17,081,274	16,312,817
Maintenance	9,372,296	9,456,911
Depreciation	13,201,056	12,955,818
Total Operating Expenses	<u>59,957,053</u>	<u>57,808,405</u>
Operating Income	<u>16,463,030</u>	<u>10,071,963</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,035,627	740,796
Interest income on note receivable from communications utility	1,070,408	1,230,319
Interest on long-term debt	(4,757,215)	(5,291,947)
Loss on land disposal	-	(24,014)
Net Nonoperating Expenses	<u>(2,651,180)</u>	<u>(3,344,846)</u>
Net income before capital contributions and deferred revenue	13,811,850	6,727,117
CAPITAL CONTRIBUTIONS	<u>237,419</u>	<u>-</u>
Net income before deferred revenue	14,049,269	6,727,117
DEFERRED REVENUE TO FUND EXTRAORDINARY OPERATION AND MAINTENANCE ACCOUNT	<u>(14,049,269)</u>	<u>(6,727,117)</u>
CHANGE IN NET ASSETS	-	-
NET ASSETS - Beginning of Year	<u>137,459,609</u>	<u>137,459,609</u>
NET ASSETS - END OF YEAR	<u>\$ 137,459,609</u>	<u>\$ 137,459,609</u>

See accompanying notes to financial statements.

Electric Utility – Statements of Cash Flows
Follows

**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail electric sales	\$ 42,466,672	\$ 41,430,994
Cash received from wholesale electric sales	23,547,970	18,153,658
Cash received from steam sales	7,622,795	7,154,503
Cash paid for coal	(17,172,657)	(15,206,853)
Cash paid to suppliers	(14,261,828)	(12,479,357)
Cash paid for employee payroll, taxes and benefits	(18,530,957)	(17,957,172)
Reimbursements by related parties for expenses paid	856,044	704,281
Other	3,709,093	2,845,958
Net Cash Flows From Operating Activities	<u>28,237,132</u>	<u>24,646,012</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Loan to communications utility	-	(352,000)
Interest received on note receivable	1,153,426	1,486,471
Net Cash Flows From Noncapital Financing Activities	<u>1,153,426</u>	<u>1,134,471</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	67,297,942	64,240,460
Investments purchased	(76,746,357)	(70,327,416)
Purchase of joint venture rights	(44,129)	(28,427)
Interest received on investments	1,324,213	1,185,539
Accrued interest purchased	(235,702)	(42,521)
Net Cash Flows From Investing Activities	<u>(8,404,033)</u>	<u>(4,972,365)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(5,360,404)	(5,967,964)
Proceeds from sale of assets	22,468	18,378
Bond principal payments	(11,465,000)	(10,230,000)
Bond interest payments	(4,175,322)	(4,638,146)
Net Cash Flows From Capital and Related Financing Activities	<u>(20,978,258)</u>	<u>(20,817,732)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,267	(9,614)
CASH AND CASH EQUIVALENTS - Beginning of Year		
Current unrestricted cash	8,161	9,690
Current restricted cash	934	9,019
	<u>9,095</u>	<u>18,709</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
Current unrestricted cash	15,751	8,161
Current restricted cash	1,611	934
	<u>\$ 17,362</u>	<u>\$ 9,095</u>

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 16,463,030	\$ 10,071,963
Noncash items in operating income:		
Depreciation of electric utility plant	13,201,056	12,955,818
Amortization of joint venture rights	72,437	63,213
Changes in assets and liabilities:		
Customer accounts receivable	(1,999,966)	(99,623)
Inventories	(264,518)	907,384
Prepaid and deferred expenses	(63,407)	53,127
Trade accounts payable	304,091	722,929
Accrued expenses	462,575	(129,141)
Customer deposits	<u>61,834</u>	<u>100,342</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 28,237,132</u>	<u>\$ 24,646,012</u>

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES

Unrealized loss in investments	\$ (179,603)	\$ (476,105)
Amortization of bond discounts/premium, deferred loss on debt refunding and bond issue costs	706,370	917,922
Unpaid capital expenditures	169,742	179,821
Loss on land disposal	-	(24,014)

Water Utility – Balance Sheets
Follows

**MUSCATINE POWER AND WATER
WATER UTILITY**

BALANCE SHEETS
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash	\$ 307	\$ 2,365
Investments	410,796	1,167,795
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2005 - \$400; 2004 - \$500	378,014	430,641
Interest	14,723	1,023
Inventories	176,829	170,198
Prepaid and deferred expenses	9,300	9,292
Total Unrestricted Assets	<u>989,969</u>	<u>1,781,314</u>
Restricted Assets		
Cash	373	-
Investments	<u>1,533,546</u>	<u>1,518,455</u>
Total Restricted Assets	<u>1,533,919</u>	<u>1,518,455</u>
Total Current Assets	<u>2,523,888</u>	<u>3,299,769</u>
NON-CURRENT ASSETS		
Capital Assets		
Utility plant in service	19,368,986	18,273,681
Construction work in progress	222,065	5,793
Less: accumulated depreciation	<u>(7,764,433)</u>	<u>(7,328,144)</u>
Total Non-Current Assets	<u>11,826,618</u>	<u>10,951,330</u>
TOTAL ASSETS	<u>\$ 14,350,506</u>	<u>\$ 14,251,099</u>

	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 279,147	\$ 393,458
Customer advances for construction	2,387,417	2,295,055
Accrued expenses	155,079	159,397
Total Current Liabilities	<u>2,821,643</u>	<u>2,847,910</u>
NET ASSETS		
Invested in capital assets	9,439,201	8,656,275
Restricted	1,533,919	1,518,455
Unrestricted	555,743	1,228,459
Total Net Assets	<u>11,528,863</u>	<u>11,403,189</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,350,506</u>	<u>\$ 14,251,099</u>

**MUSCATINE POWER AND WATER
WATER UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Water sales	\$ 3,809,090	\$ 3,660,306
Other	21,027	21,400
Total Operating Revenues	<u>3,830,117</u>	<u>3,681,706</u>
OPERATING EXPENSES		
Operations	2,729,812	2,778,850
Maintenance	593,948	478,380
Depreciation	515,562	465,060
Total Operating Expenses	<u>3,839,322</u>	<u>3,722,290</u>
Operating Loss	<u>(9,205)</u>	<u>(40,584)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	71,778	77,352
Loss on land disposal	-	(3,019)
Net Nonoperating Revenues	<u>71,778</u>	<u>74,333</u>
Net income before capital contributions	62,573	33,749
CAPITAL CONTRIBUTIONS	<u>63,101</u>	<u>-</u>
CHANGE IN NET ASSETS	125,674	33,749
NET ASSETS - Beginning of Year	<u>11,403,189</u>	<u>11,369,440</u>
NET ASSETS - END OF YEAR	<u>\$ 11,528,863</u>	<u>\$ 11,403,189</u>

See accompanying notes to financial statements.

Water Utility – Statements of Cash Flows
Follows

**MUSCATINE POWER AND WATER
WATER UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 3,790,133	\$ 3,674,272
Cash paid to suppliers	(1,819,623)	(1,528,342)
Cash paid for employee payroll, taxes and benefits	(1,794,467)	(1,647,658)
Other	221,366	(78,708)
Net Cash Flows From Operating Activities	<u>397,409</u>	<u>419,564</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	3,338,454	3,759,994
Investments purchased	(2,582,060)	(3,623,328)
Interest received on investments	75,908	101,117
Accrued interest purchased	(32,314)	(12,166)
Net Cash Flows From Investing Activities	<u>799,988</u>	<u>225,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(1,200,115)	(777,626)
Proceeds from sale of assets	1,033	123,971
Net Cash Flows From Capital and Related Financing Activities	<u>(1,199,082)</u>	<u>(653,655)</u>
Net Decrease in Cash and Cash Equivalents	<u>(1,685)</u>	<u>(8,474)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year		
Current unrestricted cash	2,365	10,226
Current restricted cash	-	613
	<u>2,365</u>	<u>10,839</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
Current unrestricted cash	307	2,365
Current restricted cash	373	-
	<u>\$ 680</u>	<u>\$ 2,365</u>

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (9,205)	\$ (40,584)
Noncash items in operating loss:		
Depreciation of water utility plant	515,562	465,060
Changes in assets and liabilities:		
Customer accounts receivable	52,627	(56,007)
Inventories	(6,631)	6,653
Prepaid and deferred expenses	(8)	550
Trade accounts payable	(92,057)	71,046
Accrued expenses	(4,318)	5,757
Customer advances for construction	<u>(58,561)</u>	<u>(32,911)</u>
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 397,409</u>	 <u>\$ 419,564</u>

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES

Contributions in aid of construction	\$ 207,362	\$ 1,122,831
Unrealized gain (loss) in investments	14,486	(8,080)
Loss on land disposal	-	(3,019)
Unpaid capital expenditures	79,003	101,257

Communications Utility – Balance Sheets
Follows

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

BALANCE SHEETS
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,032	\$ 1,564
Investments	1,973,803	1,824,930
Receivables:		
Customer accounts, less allowance for doubtful accounts		
2005 - \$5,900; 2004 - \$4,100	822,198	692,841
Interest	4,832	608
Inventories	310,862	303,156
Prepaid and deferred expenses	<u>50,360</u>	<u>95,592</u>
Total Current Assets	<u>3,164,087</u>	<u>2,918,691</u>
NON-CURRENT ASSETS		
Capital Assets		
Utility plant in service	23,733,373	22,619,401
Construction work in progress	12,349	14,307
Less: accumulated depreciation	<u>(11,024,515)</u>	<u>(8,789,669)</u>
Total Capital Assets	12,721,207	13,844,039
Intangible assets, net of accumulated amortization		
2005 - \$2,743,542; 2004 - \$1,970,450	<u>5,411,645</u>	<u>6,184,736</u>
Total Non-Current Assets	<u>18,132,852</u>	<u>20,028,775</u>
TOTAL ASSETS	<u>\$ 21,296,939</u>	<u>\$ 22,947,466</u>

	2005	2004
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Trade accounts payable	\$ 341,922	\$ 306,569
Accrued interest payable	535,204	618,222
Accrued expenses	285,566	238,637
Total Current Liabilities	<u>1,162,692</u>	<u>1,163,428</u>
NON-CURRENT LIABILITIES		
Note payable to electric utility	<u>35,327,000</u>	<u>35,327,000</u>
Total Non-Current Liabilities	<u>35,327,000</u>	<u>35,327,000</u>
NET DEFICIT - Unrestricted	<u>(15,192,753)</u>	<u>(13,542,962)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 21,296,939</u>	<u>\$ 22,947,466</u>

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET DEFICIT
For the Years Ended December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Cable (CATV)	\$ 5,475,683	\$ 5,127,968
Municipal area network (MAN)	303,360	341,928
Internet	2,536,356	2,517,720
Other	46,934	43,971
Total Operating Revenues	<u>8,362,333</u>	<u>8,031,587</u>
OPERATING EXPENSES		
Operations	5,422,341	5,331,750
Maintenance	611,829	471,225
Depreciation	2,345,870	2,322,521
Amortization	773,091	890,942
Total Operating Expenses	<u>9,153,131</u>	<u>9,016,438</u>
Operating Loss	<u>(790,798)</u>	<u>(984,851)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	47,750	17,207
Interest on note payable	<u>(1,070,408)</u>	<u>(1,230,536)</u>
Net Nonoperating Expenses	<u>(1,022,658)</u>	<u>(1,213,329)</u>
Net loss before capital contributions	(1,813,456)	(2,198,180)
CAPITAL CONTRIBUTIONS	<u>163,665</u>	<u>-</u>
CHANGE IN NET DEFICIT	(1,649,791)	(2,198,180)
NET DEFICIT - Beginning of Year	<u>(13,542,962)</u>	<u>(11,344,782)</u>
NET DEFICIT - END OF YEAR	<u><u>\$(15,192,753)</u></u>	<u><u>\$(13,542,962)</u></u>

See accompanying notes to financial statements.

**Communications Utility – Statements of
Cash Flows** Follows

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from communications sales	\$ 8,255,298	\$ 8,011,278
Cash paid to suppliers	(3,928,875)	(3,917,651)
Cash paid for employee payroll, taxes and benefits	(2,012,825)	(1,942,963)
Other	(10,781)	334,426
Net Cash Flows From Operating Activities	<u>2,302,817</u>	<u>2,485,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	2,327,722	1,577,949
Investments purchased	(2,468,823)	(2,074,582)
Interest received on investments	50,613	29,417
Accrued interest purchased	(14,859)	(7,058)
Net Cash Flows From Investing Activities	<u>(105,347)</u>	<u>(474,274)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(1,046,914)	(917,379)
Proceeds from sale of assets	3,338	53,440
Proceeds from note payable to electric utility	-	352,000
Interest paid to electric utility	(1,153,426)	(1,486,471)
Payments for other long-term obligations	-	(30,959)
Contract interest payments	-	(215)
Net Cash Flows From Capital and Related Financing Activities	<u>(2,197,002)</u>	<u>(2,029,584)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	468	(18,768)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,564</u>	<u>20,332</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,032</u>	<u>\$ 1,564</u>

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (790,798)	\$ (984,851)
Noncash items in operating loss:		
Depreciation of communications utility plant	2,345,870	2,322,521
Amortization of intangible assets	773,091	890,942
Converter/modem net write-off	34,401	193,039
Changes in assets and liabilities:		
Customer accounts receivable	(129,357)	(23,964)
Inventories	(7,706)	4,369
Prepaid and deferred expenses	45,232	59,608
Trade accounts payable	(14,845)	10,254
Accrued expenses	<u>46,929</u>	<u>13,172</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,302,817</u>	<u>\$ 2,485,090</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Unpaid capital expenditures	\$ 73,721	\$ 23,523
Unrealized gain (loss) in investments	7,771	(4,675)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF ACCOUNTING

Muscatine Power and Water (utility) is a municipal utility serving the City of Muscatine, Iowa (municipality) and surrounding areas whose rates are set by the Board of Water, Electric, and Communications Trustees (Board). The electric utility is engaged in the generation, transmission, and distribution of electric power and energy and other related activities. The water utility is engaged in the supply, purification, and distribution of water and other related activities. The communications utility is engaged in providing cable, Internet, and network services and other related activities. The equity of the utility is vested in the City of Muscatine, Iowa. The utility follows the accounting practices prescribed for regulated enterprises under accounting principles generally accepted in the United States of America applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the utility applies all GASB pronouncements as well as the Financial Accounting Standards Board (and its predecessors) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the electric and water utilities meet the criteria and, accordingly, follow the accounting and reporting requirements of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."

REPORTING ENTITY

The utility is reported as a component unit in the City of Muscatine, Iowa's Comprehensive Annual Financial Report.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, except when the utility applies the accounting and reporting requirements of FAS 71 in deferring revenues for recognition in future periods or recognition of deferred revenues in the current period.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

CASH AND CASH EQUIVALENTS

The utility's cash and cash equivalents are considered to be general checking, saving and money market accounts.

RECEIVABLES

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of the year. Bad debts are expensed when deemed uncollectible.

INVENTORIES

Inventories consist of fuel (coal) and materials and supplies valued at weighted-average cost. Materials and supplies are generally used for construction, operation and maintenance work, not for resale.

CAPITAL ASSETS

Capital assets are stated at original cost, which includes the cost of contracted services, material, labor, overhead and, on significant projects, an allowance for borrowed funds used during construction.

Capital assets are generally defined by the utilities as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Replacements and betterments of depreciable property units are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time depreciable property units are retired, the original cost of the unit less salvage are charged to the accumulated provision for depreciation.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the respective assets. The composite depreciation rates for 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Electric Utility		
Generation plant	3.3%	3.3%
Transmission and distribution plant	3.8	3.8
General plant	7.7	7.3

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

CAPITAL ASSETS (cont.)

	<u>2005</u>	<u>2004</u>
Water Utility		
Source of supply	3.3%	3.3%
Pumping equipment	3.3	3.3
Purification system	2.7	2.7
Distribution system	2.2	2.2
General plant	10.8	10.9
Communications Utility		
CATV	10.3%	10.4%
Data/Internet	13.6	13.6
MAN	8.2	8.2
General plant	10.9	10.9

On an ongoing basis, the utility reviews capital assets for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, the utility will recognize an impairment loss. No such loss was recognized in 2005 or 2004.

CUSTOMER ADVANCES FOR CONSTRUCTION

Customer advances for construction are recorded as water utility plant and a liability at the time the asset is contributed to the utility. The utility reimburses the customer by annually refunding 50% of the customers' (who are connected to the water main) water utility bill over a contracted period of time. At the end of the contract, any remaining liability is reclassified as a capital contribution.

AMORTIZATION OF DEBT DISCOUNTS/PREMIUMS AND BOND ISSUANCE COSTS

Debt discounts/premiums and bond issuance costs are being amortized over the life of the bonds using the effective interest method.

COMPENSATED ABSENCES

Under terms of employment, employees are granted vacation in varying amounts. Only benefits considered to be vested are disclosed in these statements.

DEFERRED REVENUE

The Board may, at its discretion, set aside earnings to help maintain stability in the utility's long-term rate structure. These earnings may be used for extraordinary operating expenses when deemed necessary by the Board. In 2005 and 2004, the Board approved the deferral of electric utility revenue and a reservation of assets equal to net income before deferred revenue.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

CHARGES FOR SERVICES

Electric and water billings are rendered and recorded monthly based on metered usage. Communication billings are rendered and recorded monthly based on the type of service provided. The utilities do not accrue revenues beyond billing dates. Rates were approved by the Board of Trustees on the following:

Current electric rates were approved on May 28, 2002 and effective for service beginning September 1, 2002.

Current water rates were approved on September 28, 2004 and effective for service beginning January 1, 2005.

Current communication rates were approved on July 26, 2005 and effective for service beginning September 1, 2005.

OPERATING REVENUES AND EXPENSES

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues, capital contributions or nonoperating expenses.

Revenues are recorded as services are rendered to customers. The electric and water utilities' revenues do not include unbilled revenues for services rendered only to certain residential and small commercial customers from the date of the last meter reading to year-end. The communications utility's revenues include amounts billed to customers for cable and Internet services provided, installations, advertising and other services. Revenues from cable and Internet services, installation, and other services are recognized when the services are provided to the customers. Advertising sales are recognized in the period that the advertisements are exhibited. The communications utility's revenues do not include unbilled revenues for service rendered only to certain residential and small commercial customers from the date of their previous bill's generation to year-end.

CAPITAL CONTRIBUTIONS

Cash and capital assets are contributed to the utilities from customers, the municipality or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net assets.

INCOME TAX STATUS

The utility is exempt from federal and state income taxes under the applicable tax codes.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 2 – DEPOSITS AND INVESTMENTS

State statute, the 1992 bond resolution and the utility's written investment policy authorize the utility to invest in certain certificates of deposit, interest bearing savings accounts, money market accounts, obligations of the United States of America or any of its agencies and instrumentalities, prime bankers' acceptances, commercial paper and perfected repurchase agreements. The utility's written investment policy provides additional guidelines as to portfolio mix, maturity and quality of investments.

Deposits and investments consist primarily of U.S. Treasury obligations, Federal agency obligations and certificates of deposit. Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income is allocated to the Electric, Water, and Communications Utility's revenue fund as appropriate.

CUSTODIAL CREDIT RISK

Deposits (cash, checking accounts, money markets, non-negotiable certificates of deposits)

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility. The utility's deposits at year-end were covered by federal depository insurance or by the Iowa State Public Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

It is the policy of the utility to maintain all deposits and investments within category one in accordance with GASB No. 3 which includes authorized investment vehicles that are insured or registered or which are collateralized by or evidenced by securities held by the utility or its agent in the utility's name.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2005 and 2004 were considered to be in risk category one (investments held in trust on behalf of the utility), therefore not subject to custodial credit risk.

It is the policy of the utility to maintain all deposits and investments within category one in accordance with GASB No. 3 which includes authorized investment vehicles that are insured or registered or which are collateralized by or evidenced by securities held by the utility or its agent in the utility's name.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CREDIT RISK

As of December 31, 2005, the utility's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
US treasuries	AAA	Aaa
US agencies	AAA	Aaa

It is the policy of the utility to have securities held by the utility or a third party custodian and rated within the highest or second highest rating category of a nationally recognized rating agency.

CONCENTRATION OF CREDIT RISK

At December 31, 2005, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Federal Home Loan Mortgage Corporation	43.9%
Federal Home Loan Bank	53.7%

It is the policy of the utility to diversify its investment portfolio. Assets are diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

INTEREST RATE RISK

At December 31, 2005, the utility's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1 Year</u>	<u>1 – 5 Years</u>	<u>Greater than 5 Years</u>
U.S. treasuries	\$ 229,526	\$ 229,526	\$ -	\$ -
U.S. agencies	47,810,471	35,771,914	8,587,734	3,450,823
Totals	<u>\$ 48,039,997</u>	<u>\$ 36,001,440</u>	<u>\$ 8,587,734</u>	<u>\$ 3,450,823</u>

The utility's investment policy addresses maturity limitations by requiring operating funds to be invested in instruments that mature within 397 days. Non-operating funds may be invested in instruments with maturities longer than 397 days as long as the maturities are consistent with the needs and use of the utility. One of the investment policy's primary objectives is to maintain the necessary liquidity to match expected liabilities.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 3 – CAPITAL ASSETS

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2005 follows:

	Balance 1/1/05	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/05
Land and land rights ⁽¹⁾	\$ 1,881,476	\$ -	\$ -	\$ -	\$ 1,881,476
Generation plant	308,615,014	24,365	(32,612)	1,232,962	309,839,729
Transmission and distribution plant	47,789,112	623,283	(34,914)	1,734,479	50,111,960
General plant	17,017,001	52,897	(204,946)	545,209	17,410,161
Total Utility Plant in Service	375,302,603	700,545	(272,472)	3,512,650	379,243,326
Construction work in progress ⁽¹⁾	1,154,391	4,959,636	(105,089)	(3,495,089)	2,513,849
Total Electric Utility Plant	376,456,994	\$ 5,660,181	\$ (377,561)	\$ 17,561	381,757,175
Less: Accumulated depreciation					
Generation plant	175,723,556	\$ 10,064,993	\$ (32,613)	\$ -	185,755,936
Transmission and distribution plant	29,400,793	1,827,757	(48,369)	-	31,180,181
General plant	9,965,804	1,308,306	(184,111)	-	11,089,999
Unallocated contributions in aid of construction	660,488	-	-	-	660,488
Total Accumulated Depreciation	215,750,641	\$ 13,201,056	\$ (265,093)	\$ -	228,686,604
Net Electric Capital Assets	\$ 160,706,353				\$ 153,070,571

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 3 – CAPITAL ASSETS (cont.)

ELECTRIC UTILITY (cont.)

A summary of changes in electric capital assets for 2004 follows:

	Balance 1/1/04	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/04
Land and land rights ⁽¹⁾	\$ 1,923,869	\$ -	\$ (42,393)	\$ -	\$ 1,881,476
Generation plant	305,581,352	51,943	(1,024,109)	4,005,828	308,615,014
Transmission and distribution plant	46,470,893	629,117	(314,276)	1,003,378	47,789,112
General plant	<u>16,717,952</u>	<u>147,113</u>	<u>(248,147)</u>	<u>400,083</u>	<u>17,017,001</u>
Total Utility Plant in Service	370,694,066	828,173	(1,628,925)	5,409,289	375,302,603
Construction work in progress ⁽¹⁾	<u>1,360,634</u>	<u>5,203,046</u>	<u>-</u>	<u>(5,409,289)</u>	<u>1,154,391</u>
Total Electric Utility Plant	<u>372,054,700</u>	<u>\$ 6,031,219</u>	<u>\$ (1,628,925)</u>	<u>\$ -</u>	<u>376,456,994</u>
Less: Accumulated depreciation					
Generation plant	166,506,832	\$ 9,962,916	\$ (746,192)	\$ -	175,723,556
Transmission and distribution plant	27,972,732	1,775,868	(347,807)	-	29,400,793
General plant	8,969,877	1,217,034	(221,107)	-	9,965,804
Unallocated contributions in aid of construction	<u>660,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>660,488</u>
Total Accumulated Depreciation	<u>204,109,929</u>	<u>\$ 12,955,818</u>	<u>\$ (1,315,106)</u>	<u>\$ -</u>	<u>215,750,641</u>
Net Electric Capital Assets	<u>\$ 167,944,771</u>				<u>\$ 160,706,353</u>

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2005 follows:

	Balance 1/1/05	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/05
Land and land rights ⁽¹⁾	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,447,542	-	-	4,452	1,451,994
Pumping equipment	1,112,572	8,271	(4,135)	50,723	1,167,431
Purification equipment	1,000,873	-	-	21,622	1,022,495
Distribution system	12,458,137	341,711	(35,296)	682,366	13,446,918
General plant	1,202,236	7,302	(40,876)	59,165	1,227,827
Total Utility Plant in Service	18,273,681	357,284	(80,307)	818,328	19,368,986
Construction work in progress ⁽¹⁾	5,793	1,048,325	(13,725)	(818,328)	222,065
Total Water Utility Plant	18,279,474	\$ 1,405,609	\$ (94,032)	\$ -	19,591,051
Less: Accumulated depreciation					
Source of supply	890,341	\$ 48,251	\$ -	\$ -	938,592
Pumping equipment	492,278	36,385	(4,136)	-	524,527
Purification system	582,392	26,686	-	-	609,078
Distribution system	4,389,456	273,932	(35,296)	-	4,628,092
General plant	973,677	130,308	(39,841)	-	1,064,144
Total Accumulated Depreciation	7,328,144	\$ 515,562	\$ (79,273)	\$ -	7,764,433
Net Water Capital Assets	\$ 10,951,330				\$ 11,826,618

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY (cont.)

A summary of changes in water capital assets for 2004 follows:

	Balance 1/1/04	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/04
Land and land rights ⁽¹⁾	\$ 1,150,635	\$ -	\$ (126,989)	\$ 28,675	\$ 1,052,321
Source of supply	1,447,542	-	-	-	1,447,542
Pumping equipment	1,037,491	16,344	(26,130)	84,867	1,112,572
Purification equipment	976,036	7,743	-	17,094	1,000,873
Distribution system	10,474,232	284,466	(30,004)	1,729,443	12,458,137
General plant	1,147,223	11,348	(91,802)	135,467	1,202,236
Total Utility Plant in Service	16,233,159	319,901	(274,925)	1,995,546	18,273,681
Construction work in progress ⁽¹⁾	415,029	1,586,310	-	(1,995,546)	5,793
Total Water Utility Plant	16,648,188	\$ 1,906,211	\$ (274,925)	\$ -	18,279,474
Less: Accumulated depreciation					
Source of supply	842,089	\$ 48,252	\$ -	\$ -	890,341
Pumping equipment	484,521	33,888	(26,131)	-	492,278
Purification system	556,340	26,052	-	-	582,392
Distribution system	4,186,430	232,140	(29,114)	-	4,389,456
General plant	917,866	124,728	(68,917)	-	973,677
Total Accumulated Depreciation	6,987,246	\$ 465,060	\$ (124,162)	\$ -	7,328,144
Net Water Capital Assets	\$ 9,660,942				\$ 10,951,330

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2005 follows:

	Balance 1/1/05	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/05
CATV	\$ 14,524,986	\$ 724,961	\$ (139,555)	\$ 180,098	\$ 15,290,490
Data/Internet	2,925,806	145,779	(61,332)	123,793	3,134,046
MAN	4,199,967	58,959	-	6,143	4,265,069
General plant	968,642	16,016	(4,932)	64,042	1,043,768
Total Utility Plant in Service	22,619,401	945,715	(205,819)	374,076	23,733,373
Construction work in progress ⁽¹⁾	14,307	375,016	(2,898)	(374,076)	12,349
Total Communications Utility Plant	22,633,708	\$ 1,320,731	\$ (208,717)	\$ -	23,745,722
Less: Accumulated depreciation					
CATV	5,578,802	\$ 1,497,610	\$ (69,754)	\$ -	7,006,658
Data/Internet	1,216,428	399,109	(40,675)	-	1,574,862
MAN	1,683,245	344,461	-	-	2,027,706
General plant	311,194	105,690	(1,595)	-	415,289
Total Accumulated Depreciation	8,789,669	\$ 2,346,870	\$ (112,024)	\$ -	11,024,515
Net Communications Capital Assets	\$ 13,844,039				\$ 12,721,207

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2004 follows:

	Balance 1/1/04	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/04
CATV	\$ 14,476,616	\$ 407,296	\$ (403,751)	\$ 44,825	\$ 14,524,986
Data/Internet	2,787,432	215,541	(77,914)	747	2,925,806
MAN	4,196,856	3,111	-	-	4,199,967
General plant	826,463	41,271	(17,505)	118,413	968,642
Total Utility Plant in Service	22,287,367	667,219	(499,170)	163,985	22,619,401
Construction work in progress ⁽¹⁾	23,148	155,144	-	(163,985)	14,307
Total Communications Utility Plant	22,310,515	\$ 822,363	\$ (499,170)	\$ -	22,633,708
Less: Accumulated depreciation					
CATV	4,287,280	\$ 1,507,484	\$ (215,962)	\$ -	5,578,802
Data/Internet	868,819	380,868	(33,259)	-	1,216,428
MAN	1,339,109	344,136	-	-	1,683,245
General plant	265,633	90,036	(44,475)	-	311,194
Total Accumulated Depreciation	6,760,841	\$ 2,322,524	\$ (293,696)	\$ -	8,789,669
Net Communications Capital Assets	<u>\$ 15,549,674</u>				<u>\$ 13,844,039</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the bond resolutions relating to the utility's revenue bonds or by the Board. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. The rate stabilization fund and the depreciation, extension, and improvement fund may be used for capital or other funding requirements, and the extraordinary operation and maintenance account may be used for extraordinary operating expenses at the discretion of the Board. The composition of the restricted assets at December 31, 2005 and 2004 is as follows:

	Electric Utility		Water Utility	
	2005	2004	2005	2004
Restricted Assets:				
Bond sinking fund	\$ 13,810,208	\$ 13,630,659	\$ -	\$ -
Depreciation, extension and improvement fund	-	-	1,533,919	1,518,455
Rate stabilization fund	5,884,380	10,468,962	-	-
Extraordinary operation and maintenance account	26,965,213	14,116,600	-	-
Total Restricted Assets	<u>\$ 46,659,801</u>	<u>\$ 38,216,221</u>	<u>\$ 1,533,919</u>	<u>\$ 1,518,455</u>

NOTE 5 – LONG-TERM OBLIGATIONS

LONG-TERM OBLIGATIONS SUMMARY - ELECTRIC

The following revenue bonds have been issued:

Issue Date	Purpose
October 2, 2001	Advance Refunding of a portion of the 1992 Series bonds
November 25, 2002	Advance Refunding of a portion of the 1986 Series bonds

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC (cont.)

Long-term obligation activity for the year ended December 31, 2005:

	Balance 1/1/05	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/05
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ -	\$ 49,090,000
Series 2002 revenue bonds	48,000,000	-	(11,465,000)	36,535,000
	<u>97,090,000</u>	<u>-</u>	<u>(11,465,000)</u>	<u>85,625,000</u>
Unamortized portion of deferred loss on refundings	(2,545,347)	-	789,403	(1,755,944)
Unamortized portion of revenue bond premiums	<u>1,819,898</u>	<u>-</u>	<u>(336,431)</u>	<u>1,483,467</u>
Total Long-Term Debt	96,364,551	-	(11,012,028)	85,352,523
Less: Current installments	<u>(11,465,000)</u>	<u>-</u>	<u>(315,000)</u>	<u>(11,780,000)</u>
Long-Term Debt, Net of Current Portion	84,899,551	-	(11,327,028)	73,572,523
Deferred revenue	<u>15,253,895</u>	<u>14,049,269</u>	<u>-</u>	<u>29,303,164</u>
Non-Current Liabilities	<u>\$ 100,153,446</u>	<u>\$ 14,049,269</u>	<u>\$ (11,327,028)</u>	<u>\$ 102,875,687</u>

Long-term obligation activity for the year ended December 31, 2004:

	Balance 1/1/04	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/04
Series 1998 revenue bonds	\$ 10,230,000	\$ -	\$ (10,230,000)	\$ -
Series 2001 revenue bonds	49,090,000	-	-	49,090,000
Series 2002 revenue bonds	<u>48,000,000</u>	<u>-</u>	<u>-</u>	<u>48,000,000</u>
	107,320,000	-	(10,230,000)	97,090,000
Unamortized portion of deferred loss on refundings	(3,498,457)	-	953,110	(2,545,347)
Unamortized portion of revenue bond premiums	<u>2,156,330</u>	<u>-</u>	<u>(336,432)</u>	<u>1,819,898</u>
Total Long-Term Debt	105,977,873	-	(9,613,322)	96,364,551
Less: Current installments	<u>(10,230,000)</u>	<u>-</u>	<u>(1,235,000)</u>	<u>(11,465,000)</u>
Long-Term Debt, Net of Current Portion	95,747,873	-	(10,848,322)	84,899,551
Deferred revenue	<u>8,526,778</u>	<u>6,727,117</u>	<u>-</u>	<u>15,253,895</u>
Non-Current Liabilities	<u>\$ 104,274,651</u>	<u>\$ 6,727,117</u>	<u>\$ (10,848,322)</u>	<u>\$ 100,153,446</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC (cont.)

Long-Term Obligations Maturity Schedule – Electric

The revenue bonds, which rank on a parity with each other, are secured by future net revenues of the electric utility as defined in the bond resolutions. At December 31, 2005 they mature and bear interest as follows:

<u>Maturity Date</u>	<u>Series 2002</u>		<u>Series 2001</u>	
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
January 1,				
2006	\$ 11,780,000	3.2%		
2007	12,160,000	3.6		
2008	12,595,000	4.0		
2009	-		\$ 11,305,000	5.5%
2010	-		11,930,000	5.5
2011	-		12,585,000	5.5
2012	-		13,270,000	5.5
Totals	<u>\$ 36,535,000</u>		<u>\$ 49,090,000</u>	

In prior years, the utility provided for the advance refunding of certain revenue bonds. In connection with these advance refundings, the utility deposited certain amounts in irrevocable trust funds for the repayment of all principal and interest on the advance refunded bonds. The utility is contingently liable for repayment of these bonds, which in the aggregate amounted to \$84,465,000 at December 31, 2005. The bonds and corresponding trust funds are not included on the Balance Sheets at December 31, 2005 and 2004 as the outstanding bonds are considered defeased.

The bond resolutions contain certain covenants, which among others, require the collection, segregation and distribution of utility plant revenue into various segregated funds, place certain restrictions on future borrowing and leasing or disposition of assets, require the maintenance of a minimum debt service coverage ratio, and require that minimum insurance coverage be maintained.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – COMMUNICATIONS

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. The original terms included a 5.0% interest rate. Effective January 1, 2004, an interest rate of 3.5% per annum was approved by the Board through December 31, 2004 to be adjusted on January 1, 2005 and annually thereafter, to reflect the three year Treasury note rate as of the prior July 1. The annual rate adjustment will not exceed one-half of one percent per annum and the maximum rate will not exceed five percent. It is anticipated that principal payments will begin in 2007.

Long-term obligation activity for the year ended December 31, 2005:

	Balance 1/1/05	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/05
Note payable to electric utility	\$ 35,327,000	\$ -	\$ -	\$ 35,327,000

Long-term obligation activity for the year ended December 31, 2004:

	Balance 1/1/04	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/04
Note payable to electric utility	\$ 34,975,000	\$ 352,000	\$ -	\$ 35,327,000
Other long-term obligations	30,959	-	30,959	-
Total Long-Term Liabilities	35,005,959	\$ 352,000	\$ 30,959	35,327,000
Less: Current portion	30,959			-
Long-Term Liabilities, Net of Current Portion	\$ 34,975,000			\$ 35,327,000

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 6 – NET ASSETS

GASB 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net asset consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use for the same purpose, it is the utility's policy to use unrestricted resources first (except for principal and interest on debt), then restricted resources as they are needed.

The following calculation supports the electric net assets invested in capital assets, net of related debt:

	2005	2004
Plant in Service	\$ 379,243,326	\$ 375,302,603
Construction Work in Progress	2,513,849	1,154,391
Accumulated Depreciation	(228,686,604)	(215,750,641)
Sub-Totals	<u>153,070,571</u>	<u>160,706,353</u>
Less Capital Related Debt		
Current portion of capital related long term debt	11,780,000	11,465,000
Long-term portion of capital related long term debt	73,845,000	85,625,000
Unamortized debt issuance costs	(412,581)	(616,833)
Current portions of unamortized debt issuance costs	(204,206)	(253,352)
Unamortized debt premium	1,483,467	1,819,898
Unamortized loss on advance refunding	(1,755,944)	(2,545,347)
Sub-Totals	<u>84,735,736</u>	<u>95,494,366</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 68,334,835</u>	<u>\$ 65,211,987</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 6 – NET ASSETS (cont.)

The following calculation supports the water net assets invested in capital assets:

	2005	2004
Plant in Service	\$ 19,368,986	\$ 18,273,681
Construction Work in Progress	222,065	5,793
Accumulated Depreciation	(7,764,433)	(7,328,144)
Sub-Totals	<u>11,826,618</u>	<u>10,951,330</u>
Less: Capital Related Debt		
Customer advances for construction	<u>2,387,417</u>	<u>2,295,055</u>
Total Net Assets Invested in Capital Assets	<u>\$ 9,439,201</u>	<u>\$ 8,656,275</u>

NOTE 7 – PENSION PLAN

The utility provides a defined benefit pension plan providing benefits to eligible vested full-time utility and part-time utility employees at separation of service. Eligible employees are those who are not participants in the Iowa Public Employees' Retirement System (IPERS). For participants hired prior to 9/1/2002, vesting begins at 20% upon completion of two years of service, increases 10% each year upon completion of years three and four of service, and 100% vesting is attained at the completion of five years of service. For participants hired after 9/1/2002, 100% vesting is attained at the completion of five years of service. Benefits are generally equal to 1.5% of the employee's average highest five consecutive years of compensation (Average Compensation) multiplied by credited years of service. An additional benefit is available in an amount equal to 0.5% of the employee's Average Compensation in excess of Social Security Covered Compensation, if any, multiplied by credited years of service, up to 35 years. Benefit provisions are established under the Muscatine Water and Electric Employees' Pension Plan as adopted by the utility's Board of Trustees. The funding is approved by the utility's Board of Trustees. Participants covered by the bargaining agreement contribute an annually established amount of their compensation toward the cost of their pension benefit.

The 2005 annual pension cost of \$800,352 for the Plan was equal both to the utility's annual required contribution and actual contributions made by the utility. Accordingly, the utility has no net pension obligation at December 31, 2005. The electric, water, and communications utilities' portions of the 2005 Plan contribution were \$675,530, \$41,088, and \$83,734, respectively.

The annual required contribution for 2005 was determined as part of the January 1, 2005 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included; (a) an 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 5.0%, and (c) normal retirement age of 65.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 7 – PENSION PLAN (cont.)

Six –Year Trend Information for the entire Plan:

Fiscal Year Ending	Annual Required Cost (ARC)	% of ARC Contributed	Net Pension Obligation
12/31/00	\$ 978,384	100%	\$ -
12/31/01	800,513	100	-
12/31/02	673,405	100	-
12/31/03	781,312	100	-
12/31/04	724,234	100	-
12/31/05	800,352	100	-

Schedule of Funding Progress of the entire Plan:

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL/OAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/OAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/00	\$ 17,130,834	\$ 18,466,790	\$ 1,335,956	92.8%	\$ 12,265,205	10.9%
01/01/01	19,992,994	19,617,557	(375,437)	101.9	12,360,014	(3.0)
01/01/02	23,758,368	21,291,664	(2,466,704)	111.6	13,732,092	(18.0)
01/01/03	26,002,592	23,654,587	(2,348,005)	109.9	14,957,313	(15.7)
01/01/04	28,663,321	25,457,875	(3,205,446)	112.6	15,047,000	(21.3)
01/01/05	31,717,900	28,835,478	(2,882,422)	110.0	15,766,176	(18.3)

The water utility also contributes to IPERS for full time utility employees who have elected not to participate in the Plan provided by the utility. IPERS is a cost-sharing multi-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

IPERS members are required to contribute 3.7% of their annual covered salary and the utility is required to contribute 5.75% of employees' covered salary. Contribution requirements are established by State statute. The utility's contributions to IPERS for the years ended December 31, 2005 and 2004 were \$27,795 and \$28,344, respectively, equal to the required contributions for those years.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 8 – SIGNIFICANT CUSTOMERS

Approximately \$22,032,000 or 29% in 2005 and \$21,150,000 or 31% in 2004 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$1,698,000 or 44% in 2005 and \$1,763,000 or 48% in 2004 of the water utility's operating revenues were derived from sales to one customer.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The utility has a coal supply contract for a total contract annual minimum of 500,000 tons of coal through the year 2009.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2009 and December 31, 2012. The utility's first agreement is for coal shipped from Campbell and Converse Counties, Wyoming to an interchange with the local delivery carrier. The price is subject to an annual adjustment. The utility's minimum requirement is that all tons shipped, up to 1,100,000 tons annually, from Campbell and Converse Counties, Wyoming shall be covered by this agreement. In the event the utility does not meet their minimum requirement, the utility has agreed to pay a per ton penalty for up to 1,100,000 tons annually. The second agreement covers the shipment of coal from the interchange to the utility's electric generating station by the local delivery carrier. The contract rate is determined by the interchange that the train travels through, and is adjusted quarterly. There is no annual minimum tonnage requirement.

The utility has an energy supply agreement to sell 10 megawatts of annual capacity with an 85% minimum load factor through May 31, 2007 to an unaffiliated utility. The contract requires the delivery of energy only if utility capacity is available or energy can otherwise be acquired by the utility from other sources.

The utility has contracted to sell steam to a local customer. The ten-year agreement began July 1, 2000. The customer is obligated to take a minimum annual quantity of steam each year (2,338,920 kilo pounds). As part of the contract, the utility made capital improvements of approximately \$12 million, which are expected to be recovered in revenues from the customer under the terms of the agreement. If the customer elects to terminate the agreement before the end of the contract, the customer has agreed to reimburse the utility for any unrecovered capital improvements.

NOTE 10 – ENVIRONMENTAL REGULATIONS

All generating units are in compliance with current state and federal regulations. Management anticipates that any additional costs incurred related to on-going compliance with the Clean Air Act will be recovered through rates charged to its customers.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 11 – RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$850,600 in 2005 and \$911,100 in 2004. The electric utility sold power to the communications utility amounting to approximately \$15,700 in both 2005 and 2004. The electric utility purchased water from the water utility amounting to approximately \$345,900 and \$358,400 for 2005 and 2004, respectively. The electric utility purchased Internet service from the communications utility amounting to approximately \$22,800 for both 2005 and 2004, and advertising amounting to \$9,742 and \$2,657 in 2005 and 2004, respectively.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$64,284 in 2005 and \$62,304 in 2004 for the water utility's rent, and \$89,052 in 2005 and \$85,440 in 2004 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$145,821 and \$100,235 at December 31, 2005 and 2004, respectively. Electric utility amounts payable to the water utility were \$30,197 and \$29,367 at December 31, 2005 and 2004, respectively. Electric utility amounts receivable from the communications utility were \$45,688 and \$36,456 at December 31, 2005 and 2004, respectively. Electric utility amounts payable to the communications utility were \$1,704 and \$967 at December 31, 2005 and 2004, respectively.

Prior to 2001, the electric utility loaned the communications utility \$19,500,000 for the financing of the initial construction and operation of the communications utility. In 2001, an additional \$1,900,000 was approved for the same purpose. In 2002, 2003, and 2004, additional amounts of \$12,700,000, \$875,000, and \$352,000, respectively, were approved for the financing of the expansion and operation of the communications utility, increasing the total loan to \$35,327,000.

The interest rate on the principal amount outstanding of the entire loan is adjusted each January 1 to reflect the three-year treasury note rate as of the prior July 1, the increase not to exceed 0.5% per annum and the maximum rate not to exceed 5%. The rates beginning January 1, 2004, 2005, and 2006 are 3.5%, 3.03%, and 3.53% per annum, respectively. Semi-annual payments of interest only are due each January 1 and July 1 until January 1, 2007. Thereafter, in addition to the semi-annual interest payments, annual principal payments based on a 20-year debt service amortization schedule, shall be required on January 1.

All or any portion of such loan may be prepaid at any time by the communications utility without penalty.

At December 31, 2005 and 2004, electric utility interest receivable from the communications utility was \$535,204 and \$618,223, respectively. Interest income on the loan amounted to \$1,070,408 for 2005 and \$1,230,319 for 2004.

Costs incurred on a combined basis among the utilities are allocated to each utility on the basis of revenues, utility plant in service, labor expense, and/or number of customers.

Members of the Board of Trustees are also officers of companies who are customers of the utility. Most employees are also customers of the utility.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

NOTE 12 – ACQUISITION

On January 3, 2003 the utility acquired a cable television system and the related assets serving subscribers in and around the Cities of Muscatine and Fruitland, Iowa at a price of \$9,000,000. Of this amount, \$7.7 million was considered an intangible asset and is being amortized over 10 years, ending in 2012. Under FAS 142 “*Goodwill and Other Intangible Assets*,” the utility is required to amortize an intangible asset over its useful life if its life is determined to be finite.

NOTE 13 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to destruction of assets and natural disasters. The utility is also exposed to various risks of loss relating to torts, errors and omissions, health, and injuries to employees. The utility purchases commercial insurance for claims related to these risks subject to certain deductibles. Open claims and an estimate for incurred but not reported claims are accrued up to deductible limits.

NOTE 14 – JOINT VENTURES

The utility is a member organization along with the City of Muscatine and the County of Muscatine in a joint venture under Chapter 28E of the Iowa Code to operate the Muscatine Area Geographic Information Consortium (MAGIC). The purpose of MAGIC is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems technology and data. MAGIC is governed by a six-member board composed of two appointees from each member organization. Each member organization has one vote on all matters. MAGIC’s board determines the funding required by each member organization. Upon dissolution of the joint venture, the net assets of MAGIC will be distributed on a prorata basis based on funding. Complete financial statements for MAGIC can be obtained from the Muscatine Power and Water Administration Center, 3205 Cedar Street, Muscatine, Iowa 52761.

The utility has an explicit equity interest in the joint venture. The utility has rights to the information systems technology and data and the cost of such rights are amortized over their expected useful life of 26 years. The utility’s one-third share of MAGIC’s operating expenses is expensed as incurred.

NOTE 15 – SUBSEQUENT EVENTS

WATER RATES

In December 2005, a 4.0% water rate increase was approved by the Board to become effective with water usage starting April 1, 2006.

S U P P L E M E N T A L I N F O R M A T I O N

MUSCATINE POWER AND WATER

Schedule of Insurance Coverage

December 31, 2005

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage		
FM Global Insurance Company	All risks:	4/1/06			
	Named locations		\$ 450,000,000	Blanket	\$ 500,000 Deductible per occurrence
	Gross earnings-Communications Utility		Included in Blanket		
	Acts of terrorism-certified		Included in Blanket		
	Acts of terrorism-non certified		250,000,000		
	Earth movement		100,000,000		
	Flood		100,000,000		
	Accounts receivable		50,000,000		
	Debris removal		50,000,000		
	Demolition & increased cost of construction		50,000,000		
	Fine arts		50,000,000		
	Expediting expense and extra expense		25,000,000		
	Automatic coverage (90 days)		10,000,000		
	Data programs or software		10,000,000		
	Decontamination costs		10,000,000		
	Errors and omissions		10,000,000		
	Miscellaneous unnamed locations		10,000,000		
	Transportation		10,000,000		
	Valuable papers and records		10,000,000		
	Railroad rolling stock		5,000,000	ACV	
	Mobile equipment (FKA contractors equipment)		2,500,000	ACV	
	Professional fees		1,000,000		
	Land and water cleanup		50,000		
Cincinnati Insurance Company	Money & Securities	4/1/06			100,000 No deductible
Cincinnati Insurance Company	Blanket Fidelity Bond, All Employees except Treasurer	4/1/06			250,000 No deductible
Cincinnati Insurance Company	Treasurer's Bond	4/1/06			250,000 No deductible

MUSCATINE POWER AND WATER

Schedule of Insurance Coverage (cont.)

December 31, 2005

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage		
AEGIS	Excess liability: Automobile liability Premises operations Product liability and completed operations Failure to supply Pollution liability Medical malpractice Employment practices (12/31/98 retroactive date) Emergency assistance agreements Joint venture liability (pro rata ownership) Employers liability Standards board activity Community service activity	12/31/05	\$ 35,000,000	\$ 500,000	Retention
AEGIS	Fiduciary & employee benefit liability	4/1/06	20,000,000	250,000	Retention
Midwest Employers Casualty Company	Excess workers compensation	12/31/05	35,000,000	1,000,000	Each accident SIR

MUSCATINE POWER AND WATER

SCHEDULE OF FINDINGS Year Ended December 31, 2005

PART I – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

None.

PART II – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- 05-II-A** Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2005.
- 05-II-B** Certified Budget – Disbursements during the year ended December 31, 2005, did not exceed the amounts budgeted.
- 05-II-C** Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D** Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- 05-II-E** Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 05-II-F** Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G** Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 05-II-H** Revenue Bonds – The utility has complied with all provisions of the Revenue Electric Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.
- 05-II-I** Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utilities' investment policy.

PART III – CODE OF IOWA COMMUNICATIONS LEGISLATION REQUIREMENTS

Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Communications legislation regarding the subsidization of communications operations by the electric and water utilities.